The Economy

NASBO Stats:

The White House is hinting about a new stimulus as states across the nation grapple with declining revenues. While I don't agree that another stimulus package is the answer to the current economic situation – just look at the success of the first one! – I couldn't agree more with the executive director of the National Association of State Budget Officers, who called state revenue shortages "unbelievable" in a Friday interview with Reuters.

In Mississippi, we missed our September revenue collections by about $45 million, or 10 percent below the estimate; year-to-date, we've missed the estimate by $83.2 million, or 7.8 percent. Annualizing these figures means that we could face a budget shortfall of $470 million – or higher – for FY 2010. I've already cut $172 million from the state budget, and further cuts will be inevitable for the current fiscal year.

According to NASBO, Mississippi isn't alone. States are being forced to make tough, and many times unpopular, choices to balance their budgets. Alabama has already made 7.5 percent cuts to its 2010 education budget, and Georgia is considering cutting teacher pay by $3,000 - $4,000 to deal with August collections, which were 16.4 percent below August 2008.

States like Colorado, Idaho, and South Carolina are facing budget shortfalls of more than $150 million for the current fiscal year. New York's budget director has indicated that mid-year agency spending reductions will be necessary to eliminate a $2.1 billion FY 2010 budget gap. Virginia has cut state agencies by $403 million along with nearly 600 layoffs and cuts up to 15 percent to institutions of higher learning to help meet a $1.35 billion budget shortfall for FY 2010. Washington is potentially facing a deficit of $1 billion, which will require further cuts in spending.

It's clear to me that governors across the nation simply won't have the option to practice business as usual in state government. As we grapple with declining revenue streams and rising unemployment, we must look for ways to run government more efficiently, without sacrificing critical services for our citizens. In my opinion, it's always a good time to right-size government, but the current budget crisis is serving as an impetus for governors, legislators, and agency directors across the nation to re-evaluate government programs based on what's essential, and what's not. In Mississippi, at least, we cannot pay for the status quo. The numbers simply won't add up.

Unemployment/Jobs

No matter which state you're in, chances are you will begin (or, continue) to see reductions in state government. No state is immune to trends at the national or international levels, and I expect that we won't begin to see an uptick in revenues until much, much later. Some economists have publicly stated that the recession is ending. That seems overly optimistic to me; but, even if that is "technically" the case, we must continue to proceed with caution.

> *(STATS NOTE: Rebekah has submitted a memo to you with updated September figures but those numbers are still embargoed. For September, the seasonally adjusted unemployment rate has fallen to 9.2% in September 2009, a decrease of 0.5% from August's rate of 9.7%.)*

After all, historically we know that unemployment continues to rise well after a recession has "ended." Unemployment in Mississippi, like most states, continues to increase as more and more jobs are shed. Our current unemployment rate of 9.5 percent for August 2009 is 2.2 points higher than last year, when unemployment stood at 7.3 percent. That's a 30 percent increase, year-over-year. The national rate of 9.7 percent has increased by 3.5 points, or 56.5 percent, from 2008. Twenty-seven states registered increases in their unemployment rate in August, and all 50 states are experiencing higher rates than this time last year.

Mississippi has fared better than a lot of other states, in large part because of our work to make sure Mississippi was open for business by keeping taxes low, offering competitive incentives, and passing comprehensive tort reform. During my first term, Mississippi gained 56,000 new jobs. Despite this recession, we did not see an actual net loss of jobs until August 2009, when employment fell slightly below the level it was when I became

Governor. That’s why I can’t stress enough the importance of making smart choices and not raising taxes, even when the economy shows healthy growth…

Healthcare

All Governors are for health care reform- let me say that first. The Democrats have turned this debate into “if you aren’t for our plan- which is expanding a broken Medicaid program- then you aren’t for health care reform”.

On Tuesday, the Senate Finance Committee reported their bill out of committee. It will now be complied with a more liberal Senate HELP bill, which contains the public option. Senator Snowe supported this effort but indicated that as the bill moves to combine with the more liberal HELP and HOUSE bills, her vote is not guaranteed. Senator Collins is in the same category.

In summary the Senate bill is a thousand page bill with nearly a trillion dollars in spending, nearly $500 billion in Medicare cuts that will cause your insurance premiums to go up. The bill also places an unfunded mandate on states as well as additional taxes and fees on individuals.

In the House, the House leadership has submitted three bills to the Congressional Budget Office (CBO) for scoring. We are told it will include two or three options with regard to the public plan. We will wait to see what is in this bill but talks have indicated both public options plans and expanding Medicaid up to 150 percent.

As the Senate compiles the Finance and HELP committee bills, eight Democratic Senators wrote Senator Reid requesting 72 hours to review a bill before it is brought to a vote. I support this important effort, and hope Senator Reid acknowledges the value. With so many questions unanswered, why are we rushing?

- **Unfunded Mandate:** Any unfunded mandate has significant consequences for states: increased taxes or less money for education and public safety. Governors and Senators need to be honest with their constituents about the consequences of an unfunded mandate.

  The move to shift costs from the federal government to the states will
  require almost all states to raise taxes. In Mississippi, the Finance bill will cost my state $470 Million from 2014-2019, forcing the state to raise income or sales taxes in addition to the federal tax increases already included in bill.

  In Mississippi, the state share of the Medicaid program is currently $707 million – 12 percent of the state-supported budget.

  The Senate Finance Bill fails to addresses the woodwork effect for states. In Mississippi, that is 85,000 people in Medicaid and 30,000 for CHIP.

- **Impact on Premiums**: No one has a clear understanding of what these bills are going to do to the premiums of millions of Americans who have coverage. According to CBO director Douglas Elmendorf, CBO has not done a premium impact analysis on the Senate Finance committee bill. He further explained that with "sufficient additional time" to analyze the bill, he would be able to inform Members about the premium impact of the pending policies.

CBO also said they don't know if Americans will spend more or less.

> Under questioning from Senator Jeff Bingaman, **Mr. Elmendorf acknowledged that his analysis does not evaluate the effect of the bill on national health expenditures**. The experts find conflicting effects, with some expenditures going up and some going down. "We have simply not done the analysis to net those out," Mr. Elmendorf says.
>
> When asked by Senator Roberts, "**How will these reductions affect Medicare beneficiaries' access to care**? … Sooner or later, you find doctors, and you find hospitals, especially hospitals and you find pharmacists, and

you find home health care people saying, "I'm sorry, I'm not going to treat any more Medicare patients. Have you factored that in…?" ELMENDORF: "**The Effect of those provisions on access to care is very uncertain**. … We have focused on the budgetary effects."

The Senate Finance Bill Would Increase Premiums For Family Coverage "By $4,000 More Than It Would Under The Current System": "[B]y 2019 the cost of single coverage is expected to increase by $1,500 more than it would under the current system and the cost of family coverage is expected to increase by $4,000 more than it would under the current system. This amounts to an 18 percent increase in premiums by 2019." (PricewaterhouseCoopers, "Potential Impact Of Health Reform On The Cost Of Private Health Insurance Coverage," P.7, 10/11/09)

Some Families' Premiums Will Rise By As Much As $6,600: "Individual Market: *Family* - Premiums for a family purchasing insurance in the non-group market will increase from about $7,900 in 2010, will increase to approximately $13,400 in 2019 in the absence of reform and $20,000 if these reforms become law." (PricewaterhouseCoopers, "Potential Impact Of Health Reform On The Cost Of Private Health Insurance Coverage," P.14, 10/11/09)

- **Funny math on provider rates:** *(you were right) The Balanced Budget Act 1997 created a new formula for reimbursing providers under Medicare. One of the components is the Sustainable Growth Rate (SGR) formula, which is broken. It keeps reducing Medicare reimbursement to physicians and every year we pass a law that holds the rate steady, but it is mandatory spending - no appropriation needed. The problem is SGR recalculates based on a 1997 projection and so it just keeps increasing the cut. i.e. you were supposed to cut $1 this year and $1 next year, so because you didn't take the $1 cut this year, we'll have to cut $2 next year. That's a VERY VERY simplified way to explain it, but suffice it to say the cuts build on each other because of the projections in the 1997 bill. The Finance bill does yet another delay for one year. They House bill resets the baseline and makes some modifications to the formula. The baseline of the proposal assumes the 24% cut, and the bill would be $200+ million in the red if they did not have them.*

The Finance Bill and the House bill use fuzzy math because most people recognize (or hope) that Congress won't allow cuts to doctors to go through. The Finance bill pretends we will cut doctors in an effort to keep the cost down, but just like so many other provisions in the bill, it is ***dishonest accounting***.

- **Taxes**:

  Cadillac Plans*: The tax rate on Cadillac plans (coverage in excess of $8,000/$21,000) was increased from 35 to 40 percent in the Senate Finance bill and the threshold for this tax is increased for over age 55 retirees and certain high-risk professions. Specifically, for retired individuals and high risk professions, the threshold amount is increased by $1,850 for individual coverage and $5,000 for family coverage.*

  Small business*: In the Finance bill: effective July 1, 2013, all employers with more than 50 employees who do not offer coverage will have to reimburse the government for each full-time*
  employee (defined as those working 30 or more hours a week) receiving a health care affordability tax credit in the exchange equal to the average national exchange credit and

subsidy up to a cap of $400 per total number of employees (whether they are receiving a tax credit and subsidy or not).

Details on the tax credit:

It is a refundable tax credit for low and middle-income individuals to subsidize the purchase of health insurance. Beginning in July 2013, tax credits would be available on a sliding scale for individuals and families between 134-400 percent of FPL (Federal Poverty

Level) to help offset the cost of private health insurance premiums.

Beginning in 2014, the credits are also available to individuals and families between 100-133 percent of FPL. The credits would be the amount required to prevent the individual from having to pay more than a certain percentage of income on premiums, rising from

two percent of income for those at 100 percent of FPL to 12 percent of income for those between 300 and 400 percent of poverty. Undocumented immigrants are prohibited from benefiting from the credit.

The house uses a different mechanism. The House ways and means bill has a 2 - 8% of payroll tax on employers with more than $250k in payroll who are not offering coverage. The Blue Dog Compromise pushes the threshold up to $500k in payroll. The implication here for the House bill is that once a business crosses the threshold and is at the 8% payroll tax level, there is no cap on the amount as payroll increases.

If You Have Insurance, You Get Taxed

$201 BILLION FROM EXCISE TAX ON SOME UNION AND OTHER GENEROUS HEALTH PLANS:

- **JCT:** "40% excise tax on health coverage in excess of $8,000/$21,000 indexed for inflation by CPI-U plus 1% and increased thresholds for over age 55 retirees or certain high-risk professions … 201.4 [billion]." ("Estimated Revenue Effects Of The Revenue Provisions Contained In Title VI Of The 'America's Healthy Future Act Of 2009,'" Joint Committee On Taxation, P.1, 10/8/09)
- **CBO:** "Estimated budgetary impact of the amended chairman's mark… $201 billion in revenues from the excise tax on high-premium insurance plans…" (CBO Director Douglas Elmendorf, Letter To Sen. Baucus, P.2, 10/7/09)

"Nationwide, About One In 10 Family Insurance Plans Would Be Subject To The New Excise Tax, According To The Center On Budget And Policy Priorities, A Liberal-Leaning Policy And Research Group." ("A Proposed Tax On The Cadillac Health Insurance Plans May Also Hit The Chevys," *The New York Times*, 9/21/09)

If You Don't Have Insurance, You Get Taxed

$4 BILLION FROM A NEW FINE ON THE UNINSURED. "Penalty payments by uninsured individuals, which would amount to $4 billion…" (CBO Director Douglas Elmendorf, Letter To Sen. Baucus, P.5, 10/7/09)

If You're An Employer Who Can't Afford To Provide Health Insurance To Your Employees, You Get Taxed

$23 BILLION FROM EMPLOYERS. "Penalty payments by employers whose workers received subsidies via the exchanges, which would total $23 billion…" (CBO Director Douglas Elmendorf, Letter To Sen. Baucus, P.5, 10/7/09)

If You Use Medical Devices Like Hearing Aids Or Artificial Hearts, You Get Taxed

$38 BILLION IN NEW TAXES ON MEDICAL DEVICE MANUFACTURERS. "Impose annual fee on manufacturers and importers of certain medical devices … 38.6 [billion]." ("Estimated Revenue Effects Of The Revenue Provisions Contained In Title VI Of The 'America's Healthy Future Act Of 2009,'" Joint Committee On Taxation, P.2, 10/8/09)

If You Take Prescription Drugs, You Get Taxed

$22 BILLION IN NEW TAXES ON MEDICINES. "Impose annual fee on manufacturers and importers of branded drugs … 22.2 [billion]." (“Estimated Revenue Effects Of The Revenue Provisions Contained In Title VI Of The ‘America's Healthy Future Act Of 2009,’” Joint Committee On Taxation, P.2, 10/8/09)

The liberal Center for Budget and Policy notes that the Baucus bill
"likely would have discriminatory racial effects on hiring and firing.
Because minorities are much more likely to have low family incomes than
non-minorities, a larger share of prospective minority workers would likely
be harmed."

- **Cutting Medicare**

Over $120,000,000,000 In Medicare Cuts For Hospitals That Care For Seniors

(CBO Director Douglas Elmendorf, Letter To Sen. Baucus, P.22, 10/7/09)

"Title III-Improving The Quality And Efficiency Of Health Care; Part III-Medicare Part D Improvements; Subtitle E-Ensuring

Medicare Sustainability; Hospitals Paid Under The Inpatient PPS … 2010-2019… **-106.3 [Billion Dollars].”** (CBO Director Douglas Elmendorf, Letter To Sen. Baucus, P.22, 10/7/09)

“Title III-Improving The Quality And Efficiency Of Health Care; Part III-Medicare Part D Improvements; Subtitle D-Improving Payment Accuracy; Medicare DSH Changes … 2010-2019… **-22.5 [Billion Dollars].”** (CBO Director Douglas Elmendorf, Letter To Sen. Baucus, P.22, 10/7/09)

…Over $130,000,000,000 In Cuts To Medicare Advantage

(CBO Director Douglas Elmendorf, Letter To Sen. Baucus, P.21, 23, 10/7/09)

“Title III- Improving The Quality And Efficiency Of Health Care; Subtitle C – Medicare Advantage; Medicare Advantage Payment (Including Grandfathered And Transitional Benefits)… 2010-2019… **-117.4 [Billion Dollars].”** (CBO Director Douglas Elmendorf, Letter To Sen. Baucus, P.21, 10/7/09)

“Interactions – Medicare Advantage Interactions… 2010-2019… **-16.1 [Billion Dollars].”** (CBO Director Douglas Elmendorf, Letter To Sen. Baucus, P.23, 10/7/09)

…More Than $40,000,000,000 From Home Health Agencies

(CBO Director Douglas Elmendorf, Letter To Sen. Baucus, P.22, 10/7/09)

"Title III- Improving The Quality And Efficiency Of Health Care; Subtitle D-Improving Payment Accuracy; Home Health Payment Changes… 2010-2019… **-32.5 [Billion Dollars]."** (CBO Director Douglas Elmendorf, Letter To Sen. Baucus, P.22, 10/7/09)

"Title III- Improving The Quality And Efficiency Of Health Care; Subtitle E-Ensuring Medicare Sustainability; Home Health … 2010-2019… **-10.6 [Billion Dollars]."** (CBO Director Douglas Elmendorf, Letter To Sen. Baucus, P.22, 10/7/09)

…Nearly $8,000,000,000 From Hospices

(CBO Director Douglas Elmendorf, Letter To Sen. Baucus, P.22, 10/7/09)

"Title III- Improving The Quality And Efficiency Of Health Care; Subtitle E – Ensuring Medicare Sustainability; Hospice… 2010-2019… **-7.8 [Billion Dollars]."** (CBO Director Douglas Elmendorf, Letter To Sen. Baucus, P.22, 10/7/09)

- **No Tort Reform**

The current health care reform proposals omit any mention of tort reform. Litigation and the resulting practice of defensive medicine add tens of billions to the cost of health care. In fact, OMB

On the heels of comprehensive tort reform in 2004, medical liability insurance costs are down 42 percent and doctors have received an average rebate of 20 percent of their annual paid premium.

CBO on Tort reform: On Friday, October 9th, *CBO released a letter updating its analysis of the effects of proposals to limit costs related to medical malpractice ("tort reform"). Typical legislative proposals for tort reform have included caps on awards for noneconomic and punitive damages, rules allowing the introduction at trials of evidence about insurance payments and related sources of income, statutes of limitations on suits, and replacement of joint-and-several liability with a fair-share rule.*

Tort reform could affect costs for health care both directly and indirectly: directly, by lowering premiums for medical liability insurance; and indirectly, by reducing the use of diagnostic tests and other health care services when providers recommend those services principally to reduce their potential exposure to lawsuits. Because of mixed evidence about whether tort reform affects the utilization of health care services, past analyses by CBO have focused on the impact of tort reform on premiums for malpractice insurance. However, more recent research has provided additional evidence to suggest that lowering the cost of medical malpractice tends to reduce the use of health care services.

CBO now estimates that implementing a typical package of tort reform proposals nationwide would reduce total U.S. health care spending by about 0.5 percent (about $11 billion in 2009). That figure is the sum of a direct reduction in spending of 0.2 percent from lower medical liability premiums and an additional indirect *reduction of 0.3 percent from slightly less utilization of health care services. (Those estimates take into account the fact that because many states have already implemented some of the changes in the package, a significant fraction of the potential cost savings has already been realized.)*

Enacting a typical set of proposals would reduce federal budget deficits by roughly $54 billion over the next 10 years*, according to estimates by CBO and the staff of the Joint Committee of Taxation. That figure includes savings of roughly $41 billion from Medicare, Medicaid, the Children's Health Insurance Program, and the Federal Employees Health Benefits program, as well as an increase in tax revenues of roughly $13 billion from a reduction in private health care costs that would lead to higher taxable wages.*

Energy

- There is this myth out there that a cap and trade tax scheme, like in the Waxman-Markey bill or in the Boxer-Kerry bill (which was just released and we don't know much about), will reduce our dependence on foreign oil. This is not true.
- The cap and trade bills do nothing to increase access and production of the billions of barrels of American oil we know we have, and the EPA did an analysis of the Waxman-Markey bill that said the cap and trade portion of the bill would only very slightly reduce petroleum use.
- EPA's analysis indicates that U.S. petroleum use in 2050, with Waxman-Markey's cap and trade tax, will only be 8.2%

lower than it would be without Waxman-Markey, which is roughly the same amount we use today.

- Why the small decrease in U.S. oil consumption? Probably because legislation like Waxman-Markey purposefully tries to raise conventional energy prices. This, coupled with taxpayer funded subsidies for less economical energy sources like ethanol will probably make several transportation fuel technologies economically competitive sooner than they would otherwise.
- Oil consumption, with or without legislation, is not expected to rise as fast as some may think. We are continuing to make more energy efficient internal combustion engines, and battery powered transportation technology and compressed natural gas will also come on the scene more and more. So, as the economy grows over the next 30-40 years, less oil will be required per unit of growth. Today, roughly 40% less energy is required to grow GDP 1% than was required in 1980. This trend will continue because the market demands it, not because government wants it. We shouldn't attempt to force it by making the cost of energy higher.
- In regard to energy policy, shouldn't we be looking for ways to keep costs down and reduce our excessive reliance on foreign oil? Everyone who has analyzed the impact of Waxman-Markey agrees it will have a negative impact on the economy. Some studies, like the National Association of

Manufacturers study and the National Black Chamber of Commerce study and the Congressional Budget Office analysis, say the macro impact will be very significant to jobs and economic growth and household budgets. Other studies, like the one done by Obama's EPA, says the impact will be negative but not significant.

- Before any of these bills were drafted, the Obama administration wrote in an internal memo that implementing a "cap and tax" plan would cost American households an extra $1,761 a year, so even the Administration acknowledges that such a scheme will cause everyone's energy costs to increase.
- By causing energy prices to increase, American manufacturers will be at a cost disadvantage relative to foreign competitors. This only hurts the U.S. petroleum industry and hurts our chances of reducing dependence on foreign oil. If the cost of doing business in the U.S. goes up because energy prices skyrocket, U.S. refiners will be refining less product, which will cost thousands of U.S. jobs. We will then be importing foreign refined product instead of foreign crude oil. This is a bad trade since so many American jobs are tied to the petroleum industry.
- The petroleum and natural gas industry in the U.S. today accounts for 9 million jobs with much room for expansion if the government would allow.

- In my state, the Waxman-Markey bill is expected to cost 17,000-22,000 jobs by 2030 and cause electricity prices to be 64% higher, gasoline prices to be 26% higher, and natural gas prices to be 73% higher.